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FISCAL IMPACT STATEMENT

LS 6805 **NOTE PREPARED:** Dec 31, 2004
BILL NUMBER: HB 1417 **BILL AMENDED:**

SUBJECT: Funding Public and Nonpublic School Textbooks.

FIRST AUTHOR: Rep. Welch **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
DEDICATED
X **FEDERAL**

Summary of Legislation: *Textbook Rental Program*- The bill abolishes the public school textbook rental and library programs.

Nonpublic Schools Textbook Reimbursement Program- The bill provides textbooks for students in accredited nonpublic schools through a reimbursement program.

Textbook Definition- The bill redefines "textbook" to include certain instructional materials.

Textbook Fund- The bill requires a school corporation to establish a textbook fund to purchase and distribute textbooks.

Textbook Grant- The bill provides an annual state textbook grant to school corporations of $85 per average daily membership. The bill appropriates money for textbook reimbursement of $85 per student in accredited nonpublic schools.

Effective Date: July 1, 2005.

Summary of Net State Impact: The following table illustrates the potential net cost to the state assuming FY 2005 projected levels of PTRC and textbook appropriations.

FY	Textbook Grants	Nonpublic Textbook Grants	Elimination of State Appropriation for Textbooks	Less: Reduction in PTRC	Net Cost*
2006	$83.1 M	$5.1 M	($19.9 M)	($0.023 M)	**$68.3 M**
2007	$83.3 M	$4.8 M	($19.9 M)	($0.020 M)	**$68.2 M**
2008	$83.4 M	$4.6 M	($19.9 M)	($0.018 M)	**$68.1 M**

*As described below in the TANF section, the net cost to the state shown in the table could increase by up to $11.9 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

Explanation of State Expenditures: *Textbook Grants*- This bill makes two appropriations.

School corporations would be eligible for a state grant per ADM of $85. The projected costs of these grants are approximately $83.1 M for FY 2006, $83.3 M in FY 2007, and $83.4 M in FY 2008.

Parents of full-time students or emancipated minors enrolled in accredited nonpublic schools would be eligible to receive reimbursement grants of the lessor of $85 per enrolled child or a prorated amount proportional to the total number of students enrolled full time in accredited nonpublic schools. The projected costs of these grants are approximately $5.1 M in FY 2006, $4.8 M in FY 2007, and $4.6 M in FY 2008. Nonpublic enrollment declined by 5.4% over FY 2003-FY 2004. The cost estimate assumes declining enrollment of 5.4% per year would continue through FY 2008.

Total projected costs of the above grants are approximately $88.2 M in FY 2006, $88.1 M in FY 2007, and $88 M in FY 2008.

Elimination of Textbook Reimbursement- P.L. 224-2003 appropriated $19.9 M in FY 2005 to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the federal Free and Reduced Lunch Program. Since the bill abolishes the textbook rental program, the state General Fund would realize a savings of $19.9 M for FY 2006 and thereafter (based on the assumption that future appropriations remain at the FY 2005 level).

Potential Impact on the TANF Block Grant Program- The elimination of the textbook rental program may impact the Temporary Assistance for Needy Families (TANF) program. States are required to meet a specified maintenance of effort (MOE) level in order to qualify for the federal TANF block grant of about $200 M annually. Indiana's annual TANF MOE obligation is approximately $120 M. The Family and Social Services Administration (FSSA) meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include as MOE about $11.9 M in FY 2003 and $11.8 M in FY 2004 of the state expenditure for textbooks described above, since it is an expenditure targeted at the low-income population. However, given that the proposed textbook grant program is targeted at the general student population, the state expenditure will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing, but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. For this reason, FSSA cannot count the entire $19.9 M textbook expenditure described above as MOE.) Actual aggregate MOE expenditures were $113.5 M in FY 2003 and $122.5 M in FY 2004. Indiana met its MOE obligation for these years.

Poor Relief/Reduction of PTRC- With the changes in tax law by HEA 1001-2002(ss), the state currently pays 16.2% of the Property Tax Replacement Credit (PTRC) on Poor Relief levies. The reduction in the Poor Relief levy explained under local revenues will result in a projected savings to the state paid by PTRC of $23,300 in FY 2006 (16.2% of $144,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Therefore, any reduction in PTRC reduces expenditures from the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures: School corporations may have additional funds to spend if revenue from these state grants exceeds the current funding sources as explained below.

This bill would require that school corporations pay for textbooks regardless of whether or not a state appropriation is made.

Explanation of Local Revenues: School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the federal Free and Reduced Lunch Program, and financial assistance from township trustees. As proposed by this bill, school corporations would be eligible to use a state grant of $85 per ADM instead of the above sources.

The following table compares the projected costs and revenues to public school corporations under current law to the projected costs and revenues as proposed by this bill.

	Estimate Based On Current Law			Estimate Based on Proposed Bill				
CY	Projected Revenue	Projected Costs	**Current Diff.**	Projected Revenue	Projected Costs	Less: Trustees Assistance	**Projected Diff.**	**Net Change**
2005	$81.9 M	($84.6 M)	**($2.7 M)**	$82.4 M*	($84.6 M)	($0.154 M)	**($2.4 M)**	**($0.3 M)**
2006	$84.6 M	($99.8 M)	**($15.2 M)**	$83.2 M	($99.8 M)	($0.135 M)	**($16.7 M)**	**($1.5 M)**
2007	$87.3 M	($103.1 M)	**($15.8 M)**	$83.3 M	($103.1 M)	($0.118 M)	**($19.9 M)**	**($4.1 M)**

*Includes one-half of CY2005 projected revenue- $40.9 M and one-half CY 2005 State Grant-$41.5 M.

Estimate Based on Current Law- Under current law, the revenues that school corporations receive from textbook fees and sales are projected to increase at an average rate of 3.2% annually. Monies from the state General Fund for textbook reimbursements are assumed to remain at the FY 2005 level (General Fund reimbursements), and assistance from township trustees is projected based on a four-year history beginning in FY 1997 (Township Trustee assistance). Textbook purchases are projected to increase by an average rate of 5.3% annually. The difference between projected revenues and expenditures is shown in the column noted "Current Diff. These projections show that costs would exceed collected revenues assuming that projected trends occur.

Estimate Based on Proposed Bill- As proposed by the bill, school corporations would be eligible to receive revenue from a state grant based on each school corporation's ADM. The grant revenue, estimated to be approximately $83 M per fiscal year, is not projected to exceed revenues that school corporations currently receive from other sources. The townships' respective maximum levies would be reduced by approximately $77,100 in CY 2005 (½ the calendar year), $135,000 in CY 2006, and $118,000 in CY 2007, which would translate into a gross property tax reduction in the same amount for each calendar year. Taxpayers would realize a net property tax savings (after PTRC) of approximately $65,000 in CY 2005 (½ the calendar year), $113,000 in CY 2006, and $99,000 in CY 2007. The projected savings for local units of government in future years are based on expenditures last reported in CY 1999 of $339,851.

Net Change- The final column in the table above shows the difference between the net differences of the two sets of projections. Overall, when comparing the differences in projections between current law and this bill, school corporations could potentially realize a revenue loss of $0.3 M in CY2005, $1.5 M in CY 2006, and $4.1 M in CY 2007.

Additionally, under current law, school corporations may provide free textbooks through elementary and high school libraries if 51% of the registered voters in the school district approve a referendum. This bill would reduce the general fund levy of school corporations that currently provide free textbooks. However, local monies would be replaced by state monies in accordance with this bill. The specific number of school corporations that do so is currently indeterminable, however, at least two have been identified as providing free textbooks to students. The school corporations are East Gibson School Corporation and Marion Community Schools.

State Agencies Affected: Department of Education, State Board of Tax Commissioners, Treasurer of State.

Local Agencies Affected: School corporations.

Information Sources: Department of Education ORACLE Data Tables; William Bogard, Family and Social Services Administration; East Gibson School Corporation; and Marion Community Schools.

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